

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002**

NOTE 12 – DEBT**Short-term debt instruments and liquidity**

For the year ended December 31, 2002, King County has two short-term debt instruments outstanding. On October 1, 2002, King County issued \$85 million limited tax general obligation bond anticipation notes with a maturity date of October 1, 2003. The proceeds of the notes were used to provide interim financing for the seismic retrofit of the County Courthouse and other building construction and improvement projects. Also, a portion of the note proceeds was used to pay and retire the 2001 notes in the amount of \$65 million that matured on October 1, 2002. The County intends to finance the repayment of the 2002 notes by issuing replacement bond anticipation notes in 2003.

The County has \$93.3 million of commercial paper outstanding in the Water Quality Enterprise Fund. The commercial paper has maturities ranging from 67 to 111 days. The balance of the commercial paper was \$83.5 million until June 8, 2002, when it was increased to \$100 million by issuance of additional debt. The balance remained constant at \$100 million until December 20, 2002, when \$6.7 million was repaid from operating revenues. At the time of initial issuance the proceeds of the commercial paper were transferred to the construction fund for use in the capital activities of the enterprise. Repayment of the debt will be made from operating revenues.

A summary of changes in short-term debt is provided by the following schedule:

**CHANGES IN SHORT-TERM DEBT
FOR THE YEAR ENDED DECEMBER 31, 2002**

	BALANCE 01/01/02	INCREASES	DECREASES	BALANCE 12/31/02
Governmental activities:				
Limited tax GO bond anticipation notes	\$ 65,000,000	\$ 85,000,000	\$ (65,000,000)	\$ 85,000,000
Unamortized premium bonds sold	-	627,937	-	627,937
Governmental activities short-term debt	<u>\$ 65,000,000</u>	<u>\$ 85,627,937</u>	<u>\$ (65,000,000)</u>	<u>\$ 85,627,937</u>
Business-type activities:				
Commercial paper	\$ 83,500,000	\$ 16,500,000	\$ (6,700,000)	\$ 93,300,000
Business-type activities short-term debt	<u>\$ 83,500,000</u>	<u>\$ 16,500,000</u>	<u>\$ (6,700,000)</u>	<u>\$ 93,300,000</u>

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002**

NOTE 12 – CONTINUED

Long-term debt

King County has long-term debt included with both governmental and business-type activities. Governmental activities long-term debt consists of general obligation bonds, general obligation capital leases, and special assessment bonds with governmental commitment. Special assessment bonds are guaranteed for payment from resources of the Road Improvement Guaranty Fund if a road improvement district fails to pay.

Business-type activities long-term debt consists of limited general obligation bonds accounted for in the King County International Airport, Solid Waste, Public Transportation, and Water Quality Enterprise Funds; revenue capital leases accounted for in Public Transportation Fund; and revenue bonds accounted for in the Water Quality Enterprise.

Three schedules in this note are reported on a basis that is different from the government-wide Statement of Net Assets. The Schedule of Long-term Debt, the Debt Service Requirements to Maturity, and the Computation of Legal Debt Margin are reported on a legal basis, which is different from Generally Accepted Accounting Principles (GAAP), in order to demonstrate legal compliance. These schedules consider all of King County's debt as of December 31, 2002, which includes a portion of the debt reported on the government-wide Statement of Net Assets as Component Unit debt as of June 30, 2002, in accordance with GAAP.

KING COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 12 - CONTINUED

SCHEDULE OF LONG-TERM DEBT
(Page 1 of 3)

	ISSUE DATE	INTEREST RATES	ORIGINAL AMOUNT	OUTSTANDING
I. GOVERNMENTAL ACTIVITIES - LONG TERM DEBT				
IA. GOVERNMENTAL ACTIVITIES - GENERAL OBLIGATIONS				
LIMITED GENERAL OBLIGATION DEBT				
Limited general obligation bonds				
Payable from Limited G.O. Bond Redemption Fund				
1993 Various Purpose Series "A" (Partial)	01/01/93	5.80% to 8.80%	\$ 52,695,900	\$ 1,528,446
1993 Various Purpose Series "B" (Partial)	12/01/93	5.35% to 6.70%	109,435,833	67,800,000
1996 Various Purpose Series "A" (Partial)	02/01/96	5.00% to 5.25%	105,268,054	72,730,000
1996 Refunding Series "B"	03/01/96	4.10% to 4.60%	10,348,276	7,035,626
1997 Baseball Stadium Parking Facilities(Taxable) Series "C"	04/01/97	7.06% to 7.79%	25,000,000	23,660,000
1997 Baseball Stadium Series "D"	04/17/97	4.60% to 5.75%	150,000,000	130,640,000
1997 Kingdome Debt Service Reimburse (Taxable) Series "E"	12/01/97	6.25% to 6.88%	6,595,000	6,515,000
1997 Kingdome Debt Refunding Series "F"	12/01/97	5.00% to 5.20%	51,525,000	51,390,000
1997 Various Purpose Series "G" (Partial)	12/01/97	4.50% to 5.00%	72,080,000	49,360,000
1999 Various Purpose Series "A" (Partial)	05/01/99	4.00% to 5.25%	85,694,670	55,318,158
2001 Various Purpose (Partial)	11/15/01	3.00% to 5.00%	26,925,000	25,475,000
2002 Refunding Series (Baseball Stadium)	05/20/02	4.00% to 5.50%	124,575,000	113,480,000
2002 Various Purpose (Road CIP)	09/30/02	2.00% to 5.00%	38,340,000	38,340,000
Total payable from limited G.O Redemption Fund			<u>858,482,733</u>	<u>643,272,230</u>
Payable from Internal Service Funds				
1996 Various Purpose "A" (Partial)	02/01/96	5.00% to 5.25%	9,969,883	3,455,000
1997 Various Purpose "G" (Partial)	12/01/97	4.50% to 5.00%	1,270,000	715,000
1999 Limited Tax G.O. Various Purpose Series A	05/01/99	4.00% to 5.25%	525,000	375,000
2001 Limited Tax G.O. Various Purpose (Partial)	11/15/01	3.00% to 5.00%	1,050,000	965,000
Total payable from Internal Service Funds			<u>12,814,883</u>	<u>5,510,000</u>
Limited G.O. capital leases				
Payable from General Fund	Various	Various	5,900,000	5,480,000
Payable from Public Health	Various	Various	553,699	246,349
Payable from Various Funds - King Street Center's Tenants	06/01/97	4.50% to 5.13%	78,275,000	77,990,000
Payable from Surface Water Management fund	Various	Various	437,958	53,993
Total limited G.O. capital leases			<u>85,166,657</u>	<u>83,770,342</u>
TOTAL GOVERNMENTAL ACTIVITIES - LIMITED GENERAL OBLIGATION DEBT			<u>\$ 956,464,273</u>	<u>\$ 732,552,572</u>

KING COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 12 - CONTINUED

SCHEDULE OF LONG-TERM DEBT
(Page 2 of 3)

	ISSUE DATE	INTEREST RATES	ORIGINAL AMOUNT	OUTSTANDING
IA. GOVERNMENTAL ACTIVITIES - GENERAL OBLIGATIONS (continued)				
UNLIMITED GENERAL OBLIGATION BONDS				
Payable from Unlimited G.O. Redemption Fund				
1993 Refunding Series "C"	12/01/93	6.00% to 7.25%	\$ 184,405,000	\$ 130,340,000
2000 Refunding Bonds	10/01/00	5.00% to 5.50%	102,740,000	87,785,000
2001 Harborview Medical Center	01/22/01	4.00% to 5.00%	29,130,000	27,785,000
Total payable from Unlimited General Obligation Bond Redemption Fund			<u>316,275,000</u>	<u>245,910,000</u>
Payable from Stadium G.O. Bond Redemption Fund				
2000 Refunding Bonds	10/01/00	5.00% to 5.50%	<u>18,880,000</u>	<u>16,350,000</u>
TOTAL UNLIMITED GENERAL OBLIGATION BONDS			<u>335,155,000</u>	<u>262,260,000</u>
IB. SPECIAL ASSESSMENT GENERAL LONG-TERM DEBT				
Special assessment bonds with governmental commitment - bonds payable from Road Improvement Districts S.A. Bond Redemption Fund				
RID 19	05/01/75	-0- -0-	1,000	1,000
RID 20	05/01/75	-0- -0-	3,000	1,000
RID 2 Consolidated	07/01/86	7.88% to 8.25%	<u>286,192</u>	<u>135,000</u>
TOTAL SPECIAL ASSESSMENT GENERAL LONG-TERM DEBT			<u>290,192</u>	<u>137,000</u>
TOTAL GOVERNMENTAL ACTIVITIES-LONG-TERM DEBT			<u>\$ 1,291,909,465</u>	<u>\$ 994,949,572</u>
II. BUSINESS-TYPE ACTIVITIES - LONG-TERM DEBT				
IIA. BUSINESS-TYPE ACTIVITIES - GENERAL OBLIGATIONS				
Limited general obligation bonds				
Payable from Enterprise Funds				
1993 Various Purpose "A" (Partial)	01/01/93	4.30% to 6.00%	\$ 44,538,267	\$ 16,566,554
1994 Limited Tax (Water Quality) Series A	04/01/94	5.80% to 6.40%	170,000,000	4,200,000

**KING COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002**

NOTE 12 - CONTINUED

SCHEDULE OF LONG-TERM DEBT
(Page 3 of 3)

	ISSUE DATE	INTEREST RATES	ORIGINAL AMOUNT	OUTSTANDING
IIA. BUSINESS-TYPE ACTIVITIES - GENERAL OBLIGATIONS (continued)				
1995 Limited Tax (Water Quality) Series A	05/01/95	5.50% to 5.88%	\$ 90,000,000	\$ 88,365,000
1996 Limited Tax Refunding Series "B" (Partial)	03/01/96	4.10% to 4.75%	12,631,724	10,199,374
1996 Limited Tax G.O. Refunding(Revenue Bonds) Series C	12/15/96	5.00% to 6.25%	130,965,000	105,160,000
1998 LTGO (Public Transport. Sales Tax) Refunding Series A	05/15/98	4.50% to 5.00%	85,715,000	68,260,000
1998 Limited Tax G.O. Refunding(WQ-LTGO & REV.) Series B	09/15/98	4.75% to 5.25%	261,625,000	259,350,000
1999 Limited Tax G.O. (Refunding part) Series A	05/01/99	4.00% to 5.25%	8,720,330	8,556,842
2001 Limited Tax G.O. Various Purpose (Partial)	11/15/01	3.00% to 5.00%	8,580,000	8,325,000
2002 LTGO (Public Transportation Sales Tax) Refunding Bonds	10/21/02	3.00% to 5.50%	64,285,000	64,285,000
Total payable from Enterprise Funds			<u>877,060,321</u>	<u>633,267,770</u>
BUSINESS-TYPE ACTIVITIES - REVENUE BONDS, CAPITAL LEASES AND LOANS				
Payable from Enterprise Funds				
Sewer and Drainage Bond Issue 472 Special	05/01/75	-0- -0-	500	500
1999 Sewer Revenue Bonds Series 1	06/01/99	5.25% to 5.50%	80,000,000	80,000,000
1999 Sewer Revenue Bonds Series 2	11/01/99	5.00% to 6.25%	60,000,000	60,000,000
2001 Sewer Revenue Bonds Junior Lien Series A	08/06/01	Variable Rate ^(a)	50,000,000	50,000,000
2001 Sewer Revenue Bonds Junior Lien Series B	08/06/01	Variable Rate ^(a)	50,000,000	50,000,000
2001 Sewer Revenue and Refunding Bonds	11/13/01	3.00% to 5.25%	270,060,000	266,290,000
2002 Sewer Revenue Bonds Series A	08/14/02	5.00% to 5.50%	100,000,000	100,000,000
2002 Sewer Revenue Refunding Bonds Series B	10/03/02	3.00% to 5.50%	346,130,000	346,130,000
2000, 2001, 2002 State of Washington Loans	Various	0.50% to 1.50%	39,795,279	38,195,831
1996 Public Transportation Revenue Capital Leases	Various	5.32%	89,301,567	34,883,480
Total business-type activities revenue bonds, capital leases, and loans			<u>1,085,287,346</u>	<u>1,025,499,811</u>
TOTAL BUSINESS-TYPE ACTIVITIES - LONG-TERM DEBT			<u>1,962,347,667</u>	<u>1,658,767,581</u>
TOTAL LONG-TERM DEBT (EXCLUDING G.O LONG-TERM LIABILITIES)			<u>\$ 3,254,257,132</u>	<u>\$ 2,653,717,153</u>

- (a) The variable rate bonds initially bear interest at Weekly Rates. The Weekly Rate for each Interest Period in the Weekly Mode is to be determined by the Remarketing Agents. The bonds in the Weekly Mode may be changed to or from the Weekly Mode to or from a Daily Mode, a Commercial Paper Mode, or a Long term Mode, or to a Fixed Mode, upon satisfaction of the "Change in Modes" conditions.

KING COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 12 - CONTINUED

DEBT SERVICE REQUIREMENTS TO MATURITY AS OF DECEMBER 31, 2002

(PAGE 1 OF 2)

GOVERNMENTAL ACTIVITIES

YEAR	GENERAL OBLIGATION BONDS		GENERAL OBLIGATION CAPITAL LEASES		SPECIAL ASSESSMENT BONDS (WITH GOVERNMENTAL COMMITMENT)		TOTAL GOVERNMENTAL ACTIVITIES	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2003	\$ 62,831,014	\$ 45,950,502	\$ 2,128,072	\$ 4,226,999	\$ -	\$ 11,062	\$ 64,959,086	\$ 50,188,563
2004	63,418,795	42,747,529	2,169,200	4,130,439	-	11,062	65,587,995	46,889,030
2005	66,748,990	39,713,769	2,212,260	4,026,942	-	11,062	68,961,250	43,751,773
2006	70,398,472	36,450,070	2,305,810	3,919,681	-	11,062	72,704,282	40,380,813
2007	73,993,041	32,964,951	2,390,000	3,808,305	2,000	11,062	76,385,041	36,784,318
2008-2012	316,926,918	114,218,949	13,885,000	17,111,476	135,000	11,062	330,946,918	131,341,487
2013-2017	212,685,000	34,798,985	17,860,000	13,133,295	-	-	230,545,000	47,932,280
2018-2022	36,460,000	5,463,093	21,610,000	7,944,763	-	-	58,070,000	13,407,856
2023-2027	7,580,000	344,926	19,210,000	1,951,426	-	-	26,790,000	2,296,352
2028-2032	-	-	-	-	-	-	-	-
2033-2037	-	-	-	-	-	-	-	-
	<u>\$ 911,042,230</u>	<u>\$ 352,652,774</u>	<u>\$ 83,770,342</u>	<u>\$ 60,253,326</u>	<u>\$ 137,000</u>	<u>\$ 66,372</u>	<u>\$ 994,949,572</u>	<u>\$ 412,972,472</u>

KING COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 12 - CONTINUED

DEBT SERVICE REQUIREMENTS TO MATURITY AS OF DECEMBER 31, 2002

(PAGE 2 OF 2)

BUSINESS-TYPE ACTIVITIES

YEAR	GENERAL OBLIGATION BONDS		REVENUE BONDS CAPITAL LEASES AND LOANS		TOTAL BUSINESS-TYPE ACTIVITIES		TOTAL LONG-TERM DEBT (EXCLUDING GENERAL OBLIGATION LONG-TERM LIABILITIES)	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2003	\$ 16,408,987	\$ 33,043,508	\$ 23,629,152	\$ 39,720,611	\$ 40,038,139	\$ 72,764,119	\$ 104,997,225	\$ 122,952,682
2004	17,631,204	32,051,641	35,280,092	45,089,031	52,911,296	77,140,672	118,499,291	124,029,702
2005	19,176,010	31,142,317	30,331,104	42,861,946	49,507,114	74,004,263	118,468,364	117,756,036
2006	18,321,528	30,219,870	24,101,843	41,806,876	42,423,371	72,026,746	115,127,653	112,407,559
2007	18,731,959	29,308,726	25,866,496	40,661,401	44,598,455	69,970,127	120,983,496	106,754,445
2008-2012	84,128,082	133,864,244	148,325,317	182,794,427	232,453,399	316,658,671	563,400,317	448,000,158
2013-2017	90,530,000	112,113,923	168,058,011	141,152,739	258,588,011	253,266,662	489,133,011	301,198,942
2018-2022	82,310,000	87,912,638	97,592,796	108,811,204	179,902,796	196,723,842	237,972,796	210,131,698
2023-2027	108,365,000	63,650,113	115,180,000	81,959,942	223,545,000	145,610,055	250,335,000	147,906,407
2028-2032	107,315,000	37,066,256	248,400,000	47,900,238	355,715,000	84,966,494	355,715,000	84,966,494
2033-2037	70,350,000	4,196,559	108,735,000	8,561,208	179,085,000	12,757,767	179,085,000	12,757,767
TOTAL	<u>\$ 633,267,770</u>	<u>\$ 594,569,795</u>	<u>\$ 1,025,499,811</u>	<u>\$ 781,319,623</u>	<u>\$ 1,658,767,581</u>	<u>\$ 1,375,889,418</u>	<u>\$ 2,653,717,153</u>	<u>\$ 1,788,861,890</u>

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 12 - CONTINUED

Long-term liability activity for the year ended December 31, 2002, was as follows:

**CHANGES IN LONG-TERM LIABILITIES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	BALANCE 01/01/02	INCREASES	DECREASES	BALANCE 12/31/02	DUE WITHIN ONE YEAR
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 923,854,749	\$ 162,915,000	\$ (186,647,504)	\$ 900,122,245	\$ 62,357,078
Special assessment bonds with governmental commitment	167,000	-	(30,000)	137,000	-
Unamortized premium bonds sold	-	10,877,409	(633,081)	10,244,328	1,284,649
Less deferred amounts:					
For refunding losses	-	(11,432,820)	746,445	(10,686,375)	(1,212,688)
Total bonds payable	<u>924,021,749</u>	<u>162,359,589</u>	<u>(186,564,140)</u>	<u>899,817,198</u>	<u>62,429,039</u>
Limited G.O. capital leases	84,382,920	145,335	(757,913)	83,770,342	2,128,072
Estimated claims settlements	69,452,222	94,090,808	(93,198,897)	70,344,133	63,956,133
Compensated absences liability	57,933,027	8,898,124	(3,112,292)	63,718,859	-
Unemployment compensated liability	1,172,763	2,204,171	(1,845,319)	1,531,615	-
Governmental activities Long-term liabilities	<u>\$ 1,136,962,681</u>	<u>\$ 267,698,027</u>	<u>\$ (285,478,561)</u>	<u>\$ 1,119,182,147</u>	<u>\$ 128,513,244</u>
Business-type activities:					
Bonds payable:					
General obligation bonds	\$ 654,772,502	\$ 64,285,000	\$ (85,789,732)	\$ 633,267,770	\$ 16,408,987
Revenue bonds	890,555,500	446,130,000	(384,265,000)	952,420,500	10,835,500
Less deferred amounts:					
Deferred bond discounts/ refunding losses	(83,431,400)	-	23,053,172	(60,378,228)	-
Total bonds payable	<u>1,461,896,602</u>	<u>510,415,000</u>	<u>(447,001,560)</u>	<u>1,525,310,042</u>	<u>27,244,487</u>
Public transportation - capital leases	43,171,791	-	(8,288,311)	34,883,480	11,453,168
State revolving loans	58,774,376	24,457,000	(45,035,545)	38,195,831	1,340,484
Estimated claims settlements and other liabilities	11,639,468	3,274,104	(3,503,630)	11,409,942	9,527,935
Compensated absences liability	41,244,443	4,084,933	-	45,329,376	-
Business-type activities Long-term liabilities	<u>\$ 1,616,726,680</u>	<u>\$ 542,231,037</u>	<u>\$ (503,829,046)</u>	<u>\$ 1,655,128,671</u>	<u>\$ 49,566,074</u> ^(a)

Governmental activities long-term liabilities, other than debt, are primarily estimated claims settlements liquidated by internal service funds. At year-end, internal service funds estimated claims settlements of \$70,344,133 are included in the above amount. For the governmental activities, compensated absences are liquidated by the governmental fund in which an employee is budgeted.

(a) Reconciliation of Business-type activities long-term liabilities "Due within one year" with noncurrent liabilities "Due within one year" per government-wide statement of net assets.

Business-type activities long-term liabilities "Due within one year"	\$ 49,566,074
Less: Amount reported as "Liabilities payable from restricted assets"	(40,575,710)
Business-type activities Noncurrent liabilities "Due within one year"	<u>\$ 8,990,364</u>

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002**

NOTE 12 - CONTINUED**Computation of Legal Debt Margin**

Under Washington state law (RCW 39.36.020), a county may incur general obligation debt for general county purposes in an amount not to exceed 2 1/2 percent of the assessed value of all taxable property within the county. State law requires all property to be assessed at 100 percent of its true and fair value. Unlimited tax general obligation debt requires an approving vote of the people, and any election to validate such general obligation debt must have a voter turnout of at least 40 percent of those who voted in the last state general election and, of those voting, 60 percent must be in the affirmative. The County Council may by resolution authorize the issuance of limited tax general obligation debt in an amount up to 1 1/2 percent of assessed value of property within the County for general county purposes and 3/4 percent for metropolitan functions, but the total of limited tax general obligation debt for general county purposes and metropolitan functions should not exceed 1 1/2 percent of assessed value. No combination of limited and unlimited tax debt, for general county purposes, and no combination of limited and unlimited tax debt, for metropolitan functions, may exceed 2 1/2 percent of the valuation. The debt service on unlimited tax debt is secured by excess property tax levies, whereas the debt service on limited tax debt is secured by property taxes collected within the \$1.80 per \$1,000 of assessed value operating levy.

COMPUTATION OF LEGAL DEBT MARGIN
FOR THE YEAR ENDED DECEMBER 31, 2002

2002 ASSESSED VALUE	\$ 224,994,598,210
Debt limit of limited tax (LT) general obligations for metropolitan functions	
3/4% of assessed value	\$ 1,687,459,487
Less: Net LT general obligation indebtedness for metropolitan functions	(611,061,317)
LT GENERAL OBLIGATION DEBT MARGIN FOR METROPOLITAN FUNCTIONS	\$ 1,076,398,170
Debt limit of LT general obligations for general county purposes and metropolitan functions - 1 1/2% of assessed value	\$ 3,374,918,973
Less: Net LT general obligation indebtedness for general county purposes	(901,435,683)
Net LT general obligation indebtedness for metropolitan functions	(611,061,317)
Net total LT general obligation indebtedness for general county purposes and metropolitan functions	(1,512,497,000)
LT GENERAL OBLIGATION DEBT MARGIN FOR GENERAL COUNTY PURPOSES AND METROPOLITAN FUNCTIONS	\$ 1,862,421,973
Debt limit of total general obligations for metropolitan functions	
2 1/2% of assessed value	\$ 5,624,864,955
Less: Net total general obligation indebtedness for metropolitan functions	(611,061,317)
TOTAL GENERAL OBLIGATION DEBT MARGIN FOR METROPOLITAN FUNCTIONS	\$ 5,013,803,638
Debt limit of total general obligations for general county purposes	
2 1/2% of assessed value	\$ 5,624,864,955
Less: Net unlimited tax general obligation indebtedness for general county purposes	(249,331,375)
Net LT general obligation indebtedness for general county purposes	(901,435,683)
Net total general obligation indebtedness for general county purposes	(1,150,767,058)
TOTAL GENERAL OBLIGATION DEBT MARGIN FOR GENERAL COUNTY PURPOSES	\$ 4,474,097,897

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002**NOTE 12 – CONTINUED****Refunding and Defeasing General Obligation Bond Issues – 2002**

Limited Tax General Obligation (Baseball Stadium) Refunding Bonds, 2002 – On June 4, 2002, the County issued \$124,575,000 in Limited Tax General Obligation (Baseball Stadium) Bonds with an average interest rate of 5.45 percent to advance refund \$121,365,000 of outstanding Limited Tax General Obligation (Baseball Stadium) Bonds - 1997B serial bonds with an average interest rate of 6.10 percent. The net proceeds were used to purchase US government securities which were deposited with an escrow agent to provide for all future debt service payments on the 1997B bonds. As a result, the 1997B Series bonds are considered to be defeased and the liability for those bonds has been removed from the governmental activities column of the statement of net assets.

The reacquisition price exceeded the net carry amount of the old debt by \$11,432,820. This amount is being netted against the new debt and amortized over the remaining life of the new debt, which is shorter than the old debt issued. This advance refunding was undertaken to reduce total debt service payments over the life of the bonds by \$23,393,801 and resulted in an economic gain of \$6,080,074.

Limited Tax General Obligation (Public Transportation Sales Tax) Refunding Bonds, 2002 – On November 5, 2002, the County issued \$64,285,000 in Limited Tax General Obligation Bonds with an average interest rate of 5.28 percent to advance refund \$69,235,000 of outstanding Metro Sales Tax Limited Tax General Obligation Bonds - 1993 Serial bonds with an average interest rate of 5.62 percent. The net proceeds were used to purchase US government securities which were deposited with an escrow agent to provide for all future debt service payments on the 1993 bonds. As a result, the 1993 bonds are considered to be defeased and the liability for those bonds has been removed from the business-type column of the statement of net assets.

The reacquisition price exceeded the net carry amount of the old debt by \$3,069,056. This amount is being netted against the new debt and amortized over the remaining life of the new debt, which is shorter than the old debt issued. This advance refunding was undertaken to reduce total debt service payments over the life of the bonds by \$6,386,643 and resulted in an economic gain of \$4,195,004.

Partial Defeasance of Limited Tax General Obligation (Baseball Stadium) Bonds, 2002 – On December 20, 2002, the County completed a partial defeasance of \$7,040,000 of Limited Tax General Obligation (Baseball Stadium) Refunding bonds, 2002 using the excess proceeds from special taxes and revenues. The advance defeasance resulted in the recognition of an economic gain (the difference between the present values of the debt service payments on the old and new debt) of \$628,054 for the year ended December 31, 2002.

Refunding Water Quality Revenue Bond Issues – 2002

Sewer Revenue Refunding Bonds, 2002B – On October 3, 2002, the County issued \$346,130,000 of Sewer Revenue Bonds Series 2002B with an average interest rate of 5.26 percent to advance refund \$360,490,000 of outstanding Sewer Revenue Bonds – 1993X, 1993Y and 1993Z Serial bonds with an average interest rate of 5.50 percent. The net proceeds were used to purchase US government securities which were deposited with an escrow agent to provide for all future debt service payments on the Revenue Bonds series 1993X, 1993Y and 1993Z bonds. As a result, the 1993X, 1993Y and 1993Z bonds are considered to be defeased and the liability for those bonds has been removed from the business-type column of the statement of net assets.

The reacquisition price exceeded the net carry amount of the old debt by \$15,305,384. This amount is being netted against the new debt and amortized over the remaining life of the new

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002**

NOTE 12 – CONTINUED

debt, which is shorter than the old debt issued. This advance refunding was undertaken to reduce total debt service payments over the life of the bonds by \$29,253,547 and resulted in an economic gain of \$16,395,731.

Refunded Bonds

King County has a total of 19 outstanding refunded and defeased bond issues of limited and unlimited tax general obligation bonds and revenue bonds, which were originally reported in the governmental and business-type activities of the statement of net assets. The payment of principal and interest on these bond issues is the responsibility of the escrow agent, the US Bank of Washington.

The following is a schedule of refunded bonds outstanding as of December 31, 2002.

	Governmental Activities	Business-type Activities
Limited Tax G.O. Refunded Bonds	\$ 203,659,000	\$ 229,556,000
Unlimited Tax G.O. Refunded Bonds	44,775,000	-
Revenue Bonds	-	450,490,000
Totals	<u>\$ 248,434,000</u>	<u>\$ 680,046,000</u>

Future Borrowing Plans

During the first quarter of 2003 the County has completed the sale of two refunding bond issues. It sold \$108,790,000 of unlimited tax general obligation bonds to refund the outstanding 1993C bonds and \$96,470,000 of Sewer Revenue bonds to refund the 1995 double barreled bonds.

The County has identified the need to issue approximately \$300 million of new limited tax general obligation bonds over the next five years. The proceeds of these bonds are expected to provide funds to finance the Transit Division's capital improvement program (\$100 million), road improvements (\$80 million), the seismic retrofit of the King County Courthouse (\$80 million), the construction of a new Regional Communications and Emergency Control Center (\$32 million), and various other purposes. The bonds expected to be issued on behalf of the Transit Division's capital improvement program (\$100 million) will be additionally secured by the sales tax revenues dedicated to transit.

Sometime in 2004, the County plans to issue the remaining \$164 million of the \$193 million of unlimited tax general obligation bonds that were approved by voters to provide funding for seismic improvements to the Harborview Medical Center.

For much of the balance of the decade the County will need to issue approximately \$200 million of new debt annually to provide continuing funding for its Wastewater Treatment Division's capital improvement program. These bonds are likely to be secured solely by revenues of the Wastewater Treatment Division.